

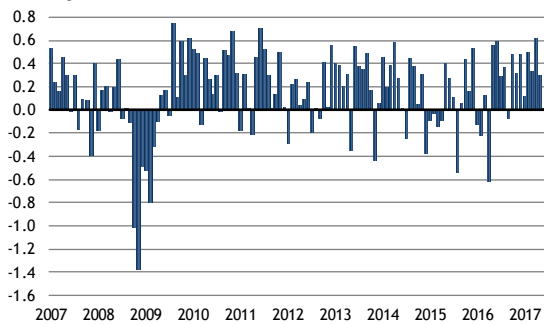
## CURRENT TRENDS UPDATE – CANADA

Update - October 20, 2017

### Overview and highlights

#### Real GDP

% change, month-over-month



Source: Statistics Canada

- ▲ Canada's 8-month long streak of monthly GDP growth finally came to an end in July with GDP holding steady at June's level.
- ▲ Employment rose 10k in September as massive swings in full-time (+112k) and part-time (-102k) largely offset one another.
- ▲ Retail sales unexpectedly dropped 0.3% in August following a 0.4% gain in July.
- ▲ Housing starts slipped to a still-strong 217k annualized units in September from 226k in August. The year-to-date average of 217k is well above 2016's 198k pace.
- ▲ Canada's trade deficit unexpectedly widened to \$3.4 billion in August.
- ▲ The year-over-year increase in all items CPI rose to 1.6% in September from 1.4% in August.

### Canada's long GDP growth streak (finally) came to an end in July

Latest available: July

Release date: September 29, 2017

Canada's 8-month long streak of monthly GDP growth finally came to an end in July with GDP holding steady at June's level. Most of the July weakness was in goods production with non-conventional oil production pulling back for a second straight month after a surge in output in May and manufacturing output inching lower. Services output rose another 0.2% in July despite a 0.6% drop in finance and insurance output that Statistics Canada noted may have been impacted by the timing of U.S. and Canadian holidays in July. The (unusually) long streak of increases over the prior year means that GDP was still up a solid 3.8% year-over-year in July, reflecting broadly-based gains across goods & services sectors.

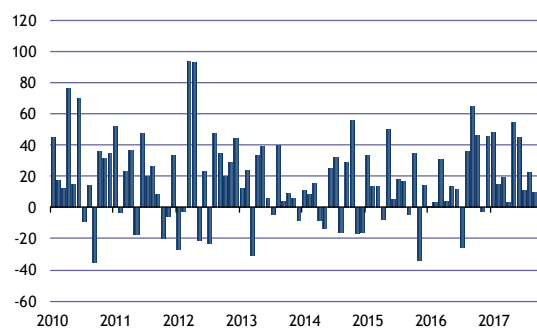
### Economy at a glance

	Lastest month	% change from	
		Previous month	Year ago
Real GDP	Jul	0.0	3.8
Industrial production	Jul	-0.5	7.4
Employment	Sep	0.1	1.8
Unemployment rate*	Sep	6.2	7.0
Manufacturing			
Production	Jul	-0.4	3.7
Employment	Sep	0.1	2.1
Shipments	Aug	1.6	4.3
New orders	Aug	4.4	6.8
Inventories	Aug	0.0	5.4
Retail sales	Aug	-0.3	6.9
Car sales	Aug	2.1	7.0
Housing starts (000s)*	Sep	217.1	218.8
Exports	Aug	-1.0	-0.2
Imports	Aug	0.0	3.0
Trade balance (\$billions)*	Aug	-3.4	-1.9
Consumer prices	Sep	0.2	1.6

\* Levels are shown for the latest period and the same period a year earlier.

## Employment

Change in thousands, month-over-month



Source: Statistics Canada

## Unemployment rate

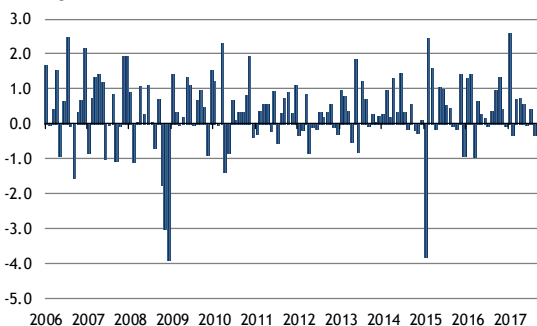
% of labour force



Source: Statistics Canada

## Retail sales

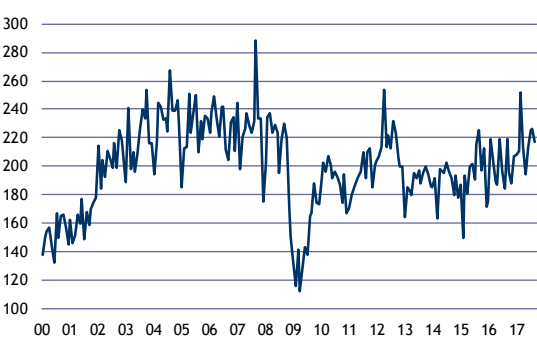
% change, month-over-month



Source: Statistics Canada

## Housing starts

Thousands



Source: Canadian Mortgage and Housing Corporation

## Canadian wages are finally starting to pick up as job gains continue

Latest available: September

Release date: October 6, 2017

Employment rose 10k in September as massive swings in full-time (+112k) and part-time (-102k) largely offset one another. The unemployment rate held steady at 6.2%. Aside from a two-year period prior to the 2008-09 recession, when the economy was running beyond full capacity, unemployment hasn't been this low in decades. Wage growth picked up to 2.2%, the highest pace in more than a year, from a low of 0.5% in April. September's increase was in goods-producing jobs, led by an gain in construction sector employment. Services employment was flat as a jump in education services, likely reflecting shifting hiring patterns for teachers, was offset by a pullback in culture and recreation employment.

## Canadian retail spending falters in August

Latest available: August

Release date: October 20, 2017

Retail sales unexpectedly dropped 0.3% in August following a 0.4% gain in July. The decline in the more recent month was relatively broadly based led by a 2.5% plummet in sales at food stores that almost fully reversed cumulative gains over the previous four months. StatsCan commented on the weakness evident in housing-related sales components with building materials down 1.9% and furniture store sales off 2.4%. Eliminating the impact of overall price changes the volume of retail sales dropped a disappointing 0.7% following the 0.1% decline in July. This represents a sharp shift from the average monthly increase through Q2 of 0.5%. Though the earlier strength will still allow the Q3 consumer spending growth rate to increase, the pace seems likely to drop to 1 1/2% from the 4.7% average gain achieved over the first two quarters of this year.

## Canadian housing starts remain strong in the face of slower resales

Latest available: September

Release date: October 10, 2017

Housing starts slipped to a still-strong 217k annualized units in September from 226k in August. The year-to-date average of 217k is well above 2016's 198k pace. The decline was in multi-unit starts although that component still posted its strongest quarterly pace on record in Q3. Single-unit starts picked up to a six-month high in September. On a regional basis, Ontario accounted for almost all of the monthly decline with starts pulling back following three consecutive monthly gains. In a separate report, building permits fell to 214k annualized units in August from 235k in July.

## Canada's trade deficit unexpectedly widened to \$3.4 billion in August

Latest available: August

Release date: October 5, 2017

Exports fell 1.0% in nominal terms and 1.5% controlling for price changes. The August pullback marks a third consecutive monthly export volumes drop with non-energy exports once again leading the way lower. The international trade data is notoriously volatile and much of the recent pullback looks to be just a retracement from four consecutive quarters of gains, culminating in a 10% jump in overall export volumes in Q2 that was clearly not sustainable.

## Canadian inflation showed little direction in September

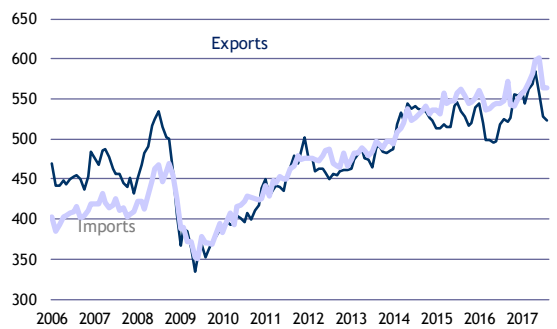
Latest available: September

Release date: October 20, 2017

The year-over-year increase in all items CPI rose to 1.6% in September from 1.4% in August. Much of the increase in headline inflation reflected higher energy prices as hurricane-related refinery shutdowns in the US put upward pressure on gasoline prices. Rising food prices were also a factor with that component continuing to rebound from multi-decade lows earlier this year. Year-over-year inflation excluding food and energy fell to 1.2%, its lowest reading since 2014, as clothing and footwear price deflation intensified. Just one of the Bank of Canada's three preferred core measures rose in September, with the average unchanged at 1.6% after rounding.

### Merchandise trade

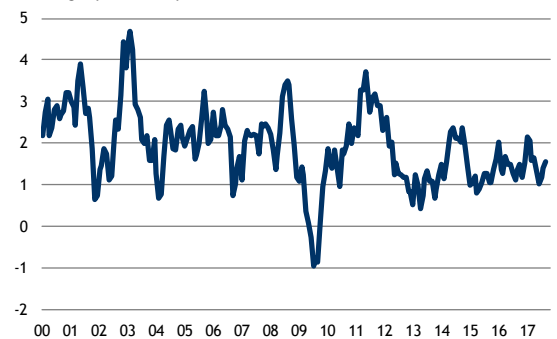
C\$ billions, annualized



Source: Statistics Canada

### Consumer price index

% change, year-over-year



Source: Statistics Canada

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.

